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50



ACTIVE MANAGERS CAN BEAT THEIR BENCHMARKS

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Equity markets exhibit significant return dispersion in all phases and Trendrating's assertion is that this cross-sectional dispersion in returns makes a compelling case in support of active management, as the opportunity to outperform underlying benchmarks is real.

The growing disconnects between security fundamentals and the ensuing price development is creating significant challenges for stock selection strategies. The ever-increasing amounts of money being invested into passive instruments and smart beta strategies are further exacerbating these disconnect. This is because the price of securities that have large weightings in passive instruments continues to move upwards as inflows increase the demand for these securities. The price trend moves independently from the underlying fundamentals and becomes a function of money flow amongst other factors. The increasing level of underperformance relative to benchmarks of fundamental investment managers is a sign that ignoring price trends

will only increase this level of underperformance

The proportion of active funds underperforming their respective benchmarks increases sharply when the time horizon is expanded to just three years; the figures are even bleaker over a five-year and ten-year horizon. Investment strategies that are cognisant of price trends, and who endeavour to be in synch with them, are the ones who will increase the probability of delivering outperformance to their clients.

Whilst an active manager may be correct in his or her assertion regarding a stock's intrinsic value, the gap between the stock price and intrinsic value may remain large over months or even years; this can cause considerable damage to a portfolio's performance. It is vital for investment managers to be aware of price trends of securities in their investment universe, and position in their portfolios to be in synch with price trends and not be pushing against strong trends; be they uptrends or downtrends.

The good news is that tools are available for fundamental managers to improve the accuracy and timing of their

stock selection processes. Trend analysis provides stock-pickers with information set on the set of securities whose information is being recognised by the market, and prudence dictates that it is better for managers to incorporate into the portfolio a stock whose fundamentals are in synch with its underlying price trend. After all, the market can stay irrational longer than most investors can stay liquid.

Trend analysis captures the momentum risk premia robustly by mitigating the negative associated with momentum investing. There is ample evidence that over any medium to long-term investment horizon, momentum offers the best risk-return profile. Its drawbacks are greater volatility, higher drawdowns, and high turnover; Trend Capture helps overcome all three shortcomings.

The Trendrating approach of a dynamic window at the stock level to uniquely capture each stock's trend commencement, allows it to overcome the high drawdowns drawback, as each security's trend is measured over its unique time window.

By capturing the trend's direction through its proprietary algorithm and then measuring the trend magnitude over each stock's unique trend window, facilitates the clear separation of winners and losers with a material level of accuracy. Price development in the clearest uptrends, occurs with volatility significantly lower than that of the overall market, which implies that portfolios formed by positioning them in line with the clearest uptrends result in outperformance at lower volatility, thus alleviating the second drawback associated with

Momentum investing.

The clearest uptrends tend to be long in terms of time horizon and high in terms of magnitude, so the name turnover associated with the clearest uptrends is quite low. By aligning a portfolio in synch with the clearest of uptrends, the third drawback of high turnover is also alleviated.

The beauty of trend capture is that it fits seamlessly with all investment styles with a minimum of disruption. It can be used as an overlay for idea generation & validation, risk control by managing performance risk, and for improving the return profile of other factors such as value, growth, and even other measures of momentum. Investment managers can materially improve the performance of their investment portfolios and improve client satisfaction and retention.

Trendrating offers an array of tools to help incorporate trend capture into a range of investment styles. A cloud-based software offers easy to use graphical interfaces and integration toolkit to easily embed trend capture into the investor workflow. Trendrating also offers data feed solutions whereby investment managers can incorporate its trend capture model into their existing platforms, be they proprietary or third-party software. Both delivery channels offer an easy integration of the Trendrating trend capture model into the user workflow, with material differences observable within a short period.